

Chairman's Statement



I hereby present to the shareholders the annual report of the Company for the year ended 31st December, 2001.

BUSINESS REVIEW

2001 was a volatile and difficult year. The three global economic locomotives, that is, US, Europe and Japan, all ran out of steam. Export driven economies across the globe were hard hit during the year. The global economic downturn, volatile stock markets and high unemployment rates adversely affected the Asian economy. The downturn of the global economy was further aggravated by the

repercussions of the terrorist attack of 11th September. This incident dampened the investment sentiment of the global economy and stock markets.

During the year, Hong Kong was affected by the global economic downturn and experienced a tough and adverse operating environment. The local stock market had a volatile year. Property prices continued to fall whilst the property market remained sluggish. Despite the consecutive interest rate cuts during the year to historically low levels, investment sentiment remained poor. Competition among banks further intensified during the year. In view of the tough and adverse operating environment, the Group has continued to adopt a prudent approach in its business activities and in making provisions against the diminutions in values of certain properties and investment portfolio. Amidst this difficult operating environment, the Group recorded a loss of HK\$551 million for the year.

The Group's investment properties still managed to enjoy a high level of occupancy during the year under review. Despite the inactivity of the local property market and the falling level of rent renewals, particularly within the office sector, rental income continued to provide a stable recurrent income base for the Group. As a result of the rapid economic development and the stimulus created by the entry of the People's Republic of China ("PRC") into the World Trade Organization, the property markets in major cities of the PRC have benefited. "Lippo Plaza", a grade A office and retail complex situated at Huaihai Zhong Road, Shanghai, the PRC, has achieved nearly full occupancy during the year under review and the renewed rental rate has been on an upward trend. The Group has a 66.5 per cent. interest in this project.

The occupation permit for the mixed residential and retail development situated at Village Road, Happy Valley, Hong Kong known as "Le Village" has been issued. Over 85 per cent. of the residential units have now been sold. All the remaining units and car parking spaces at another residential

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development known as "Regent on the Hill" located at Hammer Hill Road, Diamond Hill, Kowloon have been sold. The Group has a 50 per cent. interest in each of the above projects. Due to the continued drop in the prices of the local properties, additional provisions were made against the above two property developments.

The 724 megawatt (net) coal-fired Meizhou Wan power plant project in Putian City, Fujian Province, the PRC, in which the Group has a 25 per cent. interest, has been completed in 2001. The provincial authorities and power offtaker have been trying to re-negotiate the electricity tariff and other terms. As a result of the ongoing negotiation, the formal commercial operation of the power plant had been postponed. The revenue shortfall resulted in a loss of HK\$89 million attributable to the Group, mainly representing interest charge for 2001.

Due to the volatile stock markets and adverse economic conditions in Singapore and the South-east Asia, Auric Pacific Group Limited ("Auric"), a listed subsidiary of the Company in Singapore, recorded a net loss attributable to shareholders of S\$19.4 million for the year. Auric achieved an operating profit of S\$6.6 million before accounting for the unrealised exchange gain and losses due to revaluation of quoted investments and provision for diminution in valuation of long-term investments. Auric will review and closely monitor its portfolio of short and long-term investments. To enhance its competitiveness, Auric will invest further on the latest food technology to improve business processes and develop better and wider ranges of products for consumers.

Hongkong Chinese Limited ("HKCL", formerly known as The HKCB Bank Holding Company Limited), a listed subsidiary of the Company, and its subsidiaries ("HKCL Group") reported a consolidated loss attributable to shareholders of HK\$192 million, compared with a profit of HK\$102 million in 2000 when non-recurring gains of HK\$260 million were excluded. Such deterioration was mainly because the profit contributions from its principal subsidiaries, The Hongkong Chinese Bank, Limited ("HKCB") and Lippo Securities Holdings Limited, decreased.

Taking into account the keen competition and difficult operating environment in the banking industry, in October 2001, HKCL entered into an agreement with CITIC Ka Wah Bank Limited for the disposal of the entire issued share capital of HKCB and its subsidiaries for an aggregate consideration of HK\$4.2 billion. Such disposal was subsequently completed on 17th January, 2002.

With the above disposal of HKCB and its subsidiaries, the Company intended to maintain and consolidate its controlling interest in HKCL. In October 2001, the Company entered into an agreement with China Resources Enterprise, Limited for the acquisition of the remaining 50 per cent. interest in Lippo CRE (Financial Services) Limited ("Lippo CRE"), the holding company of HKCL, and approximately 5.84 per cent. interest in HKCL for an aggregate consideration of approximately HK\$1.8 billion. Such acquisition was also subsequently completed on 17th January, 2002. HKCL has a very strong financial position and is well-positioned to take advantage of any good investment opportunity.

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Following the disposal of a significant portion of mortgage loan portfolio in the second half of year 2000 and with the continued sluggish loan demand, turnover of The Hong Kong Building and Loan Agency Limited ("HKBLA"), a listed subsidiary of the Company, for the year generated from mortgage finance decreased significantly. Amid the volatile stock markets, HKBLA incurred an unrealised holding loss on other investments in securities of HK\$37.5 million. HKBLA achieved an operating profit of HK\$4.3 million before accounting for the above unrealised holding loss and recorded loss attributable to shareholders of HK\$32.1 million when such loss was included. HKBLA remains debt-free and continues to maintain a very strong liquidity position.

PROSPECTS

It is expected that 2002 will be another volatile and trying year. Under the impact of globalisation, Hong Kong will inevitably face greater challenges. Soaring unemployment rate and weak investment sentiment will continue to pressurize the local economy. With the anticipated gradual recovery of the US economy, it is expected that the local economic environment will improve but such improvement will largely depend on the pace of economic growth in the US. The Group is cautiously optimistic as to the long-term prospects of the local economy. The Group will continue its prudent and cautious approach in seeking appropriate investment opportunities which will provide future growth and added value to the shareholders.

APPRECIATION

On behalf of the Board of Directors, I would like to express my gratitude and appreciation to the management and all of our staff for their loyalty, hard work and dedication to the Group.

Dr. Mochtar Riady

Honorary Chairman

25th April, 2002